

Message Text

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ACTION COME-00

INFO OCT-01 ARA-14 ISO-00 EB-08 XMB-04 AID-05 /032 W

-----044078 081122Z /11

R 061817Z JUL 78

FM AMCONSUL SAO PAULO

TO SECSTATE WASHDC 8642

INFO AMEMBASSY BRASILIA

AMCONSUL RIO DE JANEIRO

UNCLAS SAO PAULO 1938

FROM COMMERCIAL COUNSELOR

DEPARTMENT PASS EXIMBANK

E.O. 11652: N/A

TAGS: EMIN, EFIN, BEXP, BR

SUBJECT: MAJOR PROJECT: USIMINAS STEEL MILL EXPANSION

1. ALBERTO GRINSPUN, SALES MANAGER FOR LATIN AMERICA OF THE GENERAL ELECTRIC DRIVE SYSTEMS DEPARTMENT, SALEM, VIRGINIA, AND LEO WILKOSZYNSKI, GENERAL SALES MANAGER, HEAVY EQUIPMENT, GENERAL ELECTRIC DO BRASIL, CALLED ON THE COMMERCIAL COUNSELOR TO DISCUSS THE PLANS FOR AN EXPANSION THE USIMINAS STEEL MILL IN MINAS GERAIS. ALTHROUGH THE EXPANSION HAS NOT YET BEEN OFFICIALLY APPROVED BY THE STATE HOLDING COMPANY SIDERBRAS, THE PLANS SEEM QUITE FIRM AND WILL CALL FOR \$100 MILLION IN IMPORTED EQUIPMENT.

2. MR. GRINSPUN SAID GE WAS VERY INTERESTED IN SELLING ELECTRICAL EQUIPMENT FOR STEEL MILLS IN LATIN AMERICA AND THAT US EQUIPMENT WAS VERY COMPETITIVE IN THIS FIELD. HOWEVER, HE SAID HIS COMPANY'S PAST EXPERIENCE IN WORKING TOGETHER WITH US MANUFACTURERS OF MECHANICAL EQUIPMENT WAS NOT COMPETITIVE IN TERMS OF EITHER TECHNOLOGY OR PRICE. THEREFORE, GE HAD DECIDED TO ENTER INTO A COSORTIUM WITH NIPPON STEEL AND ISHIKAWAJIMA HEAVY
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INDUSTRIES (IHI) IN ORDER TO COMPETE FOR THE USIMINAS CONTRACTS. IF THIS GROUP WINS THE CONTRACT, \$40 TO 50 MILLION IN ELECTRICAL EQUIPMENT COULD COME FROM THE US AND \$50 - 60 MILLION IN MECHANICAL EQUIPMENT WOULD COME FROM JAPAN. THE ONLY OTHER FIRMS COMPETING FOR THIS BUSINESS ARE MITSUBISHI AND HITACHI, BOTH OF WHICH NORMALLY SUPPLY THEIR OWN ELECTRICAL COMPONENTS. THUS, GRINSPUN SAID, THE NIPPON STEEL/IHI/GE CONSORTIUM IS THE

ONLY COMPETITOR OFFERING THE POSSIBILITY OF SUPPLYING ANY US-ORIGIN EQUIPMENT.

3. GRINSPUN SAID THE GE/JAPANESE CONSORTIUM WOULD BE COMPETITIVE IN TERMS OF PRICE, QUALITY AND DELIVERY PERIOD AND THAT THE JAPANESE FINANCING FOR THE MECHANICAL EQUIPMENT WOULD BE COMPETITIVE WITH THE FINANCING OFFERED BY MITSUBISHI AND HITACHI. FOR GE THE KEY QUESTION IS WHETHER THE EXIMBANK WOULD BE PREPARED TO OFFER COMPETITIVE FINANCING FOR THE US-ORIGIN ELECTRICAL EQUIPMENT. GRINSPUN SAID HE FEARED THE EXIMBANK MIGHT BE RELUCTANT TO LEND TO USIMINAS BECAUSE IT HAD NEVER DONE BUSINESS WITH THAT FIRM, WHICH WAS ORIGINALLY JAPANESE-CONTROLLED AND THEREFORE HAD NEVER BOUGHT EQUIPMENT FROM THE US. THE COMMERCIAL COUNSELLOR SAID HE SAW NO REASON TO FORESEE ANY EXIMBANK RELUCTANCE TO DEAL WITH USIMINAS, WHICH IS NOW LARGELY OWNED BY THE BRAZILIAN GOVERNMENT, IS THE LARGEST STEEL PRODUCER IN LATIN AMERICA. AND HAS AN EXCELLENT CREDIT RATING. HE SUGGESTED THAT ONCE THE USIMINAS EXPANSION HAS BEEN APPROVED BY SIDERBRAS. GE SHOULD APPROACH THE EXIMBANK TO DISCUSS A PRELIMINARY COMMITMENT FOR THE EQUIPMENT TO BE SUPPLIED FROM THE U.S.

4. COMMENT: USINAS SIDERURGICAS DE MINAS GERAIS S.A. USIMINAS HAS OVERTAKEN COMPANHIA SIDERURGICA NACIONAL (CSN) AS THE LEADING STEEL PRODUCER IN BRAZIL (AND LATIN AMERICA). IT IS VIRTUALLY THE ONLY MEMBER OF THE SIDERBRAS GROUP WHICH HAS EXPERIENCED NEITHER TECHNICAL NOR FINANCIAL DIFFICULTIES. PRODUCTION IN 1977
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TOTALLED SOME 2.7 MILLION TONS, AND TOWARD THE END FOR THE YEAR PRODUCTION REACHED AN ANNUAL RATE OF 3 MILLION TONS. ORIGINALLY JAPANESE-CONTROLLED, USIMINAS IS NOW OWNED 33.7 PER CENT BY SIDERBRAS, 46.4 PER CENT BY THE GOB NATIONAL DEVELOPMENT BANK (BNDE) AND 17.3 PERCENT BY NIPPON USIMINAS LTD., OF TOKYO. LOCAL CREDIT SOURCES REPORT AN "EXCELLENT" EXPERIENCE WITH USIMINAS. (SEE WTDR SUBMITTED BY RIO DE JANEIRO 2994).

SINCE OUR EXPERIENCE IN RECENT YEARS IN ATTEMPTING TO SELL EQUIPMENT TO STEEL MILLS IN BRAZIL HAS NOT BEEN VERY GOOD. WE HOPE THE EXIMBANK WILL SUPPORT THIS PROMISING EFFORT BY GE.
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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: TRADE PROMOTION, EQUIPMENT, STEEL PLANTS, PROGRAMS (PROJECTS), PROPOSALS (BID)
Control Number: n/a
Copy: SINGLE
Draft Date: 06 jul 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978SAOPA01938
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780280-0873
Format: TEL
From: SAO PAULO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780790/aaaacxxh.tel
Line Count: 106
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3266827a-c288-dd11-92da-001cc4696bcc
Office: ACTION COME
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2102741
Secure: OPEN
Status: NATIVE
Subject: MAJOR PROJECT: USIMINAS STEEL MILL EXPANSION
TAGS: EMIN, EFIN, BEXP, BR
To: STATE
Type: TE
vdkgvwkey: odbc://SAS/SAS.dbo.SAS_Docs/3266827a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014